

Greg Tanzer  
Secretary General  
International Organization of Securities Commissions  
C / Oquendo 12  
28006 Madrid  
Spain

By email: [PeriodicDisclosure@iosco.org](mailto:PeriodicDisclosure@iosco.org)

London, 30 August 2009

## **Public Comment on the Principles for Periodic Disclosure by Listed Entities: Consultation Report**

Dear Mr Tanzer,

We are writing to provide you with Hermes' comments on the Consultation Report on the Principles for Periodic Disclosure by Listed Entities ("the Principles").

Hermes Fund Managers Limited ("Hermes") is one of the largest pension fund managers in the City of London and is the principal manager of the BT Pension Scheme. Hermes has approximately €30 billion under management (31 December 2008). As part of its Equity Ownership Services (EOS), Hermes also advises and speaks for non-investment clients in respect of equities worth around €50 billion (31 December 2008). As such, we also respond to consultations such as this on behalf of Ireland's National Pensions Reserve Fund, Australia's VicSuper and the Dutch pension fund PNO Media. Hermes is closely involved in corporate governance and responsible investment around the world.

Hermes takes a close interest in the legal and regulatory framework that governs corporate reporting and disclosure both at the global and market level. Disclosure of reliable, relevant and timely information that is readily accessible is fundamental for markets to function because it enables investors to make informed investment decisions. It is also fundamental for the exercise of our clients' rights as part-owners of the companies in which they invest.

Hermes welcomes the Principles developed by IOSCO's Technical Committee. They provide useful guidance to jurisdictions that are developing or reviewing their periodic disclosure requirements for listed entities. We are pleased in particular about the suggested scope and contents of disclosure on governance issues.



Given that we are broadly supportive of the Principles, we only have a few comments on specific Principles which we outline below. From the perspective of long-term investors, such as Hermes and its clients, one issue that seems particularly important going forward is the contents of and communication of companies related to interim reports. Whilst this question may have been outside the scope of the Principles project, we would encourage IOSCO to consider this important subject in due course.

With regards to the Principles, we would encourage you to put greater emphasis on information regarding the relationship of companies with stakeholders and the management of environmental and social issues.

### **Relationship with stakeholders**

We believe that companies should manage effectively relationships with their employees, suppliers and customers and others who have a legitimate interest in their activities with a view to maximising long-term shareholder value. Well managed companies cannot ignore the impact of their activities on the wider society. This does not mean, however, that businesses have limitless social obligations. It is the responsibility of businesses to generate value for shareholders. Hermes believes that they will only be able to do so in the long-term by effectively managing relations with their key stakeholders. We believe that doing well economically in the long-term and behaving ethically and responsibly are not mutually exclusive. At the very minimum, based on economic efficiency, we would argue it is appropriate that companies are open about and prepared to discuss the impact of their activities on stakeholders.

### **Management of environmental and social issues**

We believe that companies should manage effectively environmental and social factors that affect their business and society at large with a view to enhancing their long-term sustainability. They should demonstrate how they identify and explore related business opportunities and explain the structures and procedures in place to manage related risks. Where appropriate, companies should support voluntary and statutory measures which minimise the externalisation of costs to the detriment of society at large. We recognise that a range of environmental and social issues may affect long-term shareholder value and the company's sustainability. As such, we believe companies should effectively identify and explore related opportunities and manage relevant risks. We also encourage companies to disclose to shareholders on a regular basis how they do so and provide evidence that this process is effective. This could include reporting on objectives and milestones of and progress with sustainability strategies.

In addition, we have the following short comments on specific Principles.

### **Principle a.: Periodic reports should contain relevant information**

We welcome disclosure of the audit related information mentioned in Principle a.. In addition we consider the disclosure of all fees paid to the auditor for audit and non-audit services rendered to the audited company and its subsidiaries as important for investors. Auditor fees should be disclosed in aggregate and, as far as possible, split between audit-related and non-audit related fees so that investors can identify and assess potential conflicts of interests.

### **Principle d.: Compensation disclosure**

In terms of reporting on compensation, we believe remuneration policies should be disclosed annually so that shareholders can assess whether the interests of senior management have been aligned with their own. We encourage companies to prepare and publish remuneration reports. Such reports provide a chance to articulate policies with regard to remuneration and explain how they support strategic

objectives. As such, they can provide a useful starting point for constructive dialogue between companies and shareholders.

Flawed remuneration policies may encourage executives to take excessive risks in order to generate short-term profits and fail to align their interests with those of shareholders in the longer term. For companies in the financial sector in particular, we therefore look for evidence that variable incentive structures reward sustainable profits and incorporate some risk metric and measure of the cost of capital involved in any deal related activities. Companies should disclose how their remuneration policies further the sustainable creation of value.

We believe it is particularly important and useful for companies to consider and disclose the objectives of remuneration policies. To be successful over the long-term companies should establish and maintain a strong internal culture which focuses its staff on sustainable value creation. Such a culture will ensure that employees act cohesively to promote the long-term success of the business. Boards of companies should establish, maintain and oversee an appropriate corporate culture and ensure that related objectives are reflected in arrangements such as job responsibilities, performance measurement and assessments and remuneration policies.

We would also encourage disclosure of the structures and procedures companies put in place to develop their remuneration policies, including the composition, terms of reference and activities of a relevant committee.

## **Principle e.: Corporate governance disclosure**

### **Nomination committee**

Given the fundamental importance of the composition and work of the board of directors, we believe that in addition to the audit and compensation committees mentioned in the Principles, companies should generally set up a nomination committee and disclose information on its composition, terms of reference and activities. Where companies decide not to set up a nomination committee, comparable information on the structure and procedure of the relevant decision-making body should be provided to investors.

### **Risk management**

Effective risk management policies, structures and procedures are essential for sustainable value creation. The governance problems which contributed to the financial crisis have highlighted that risk management needs to have a higher profile within companies. This should start at the top. We believe that boards rather than committees should assume ultimate responsibility for and closely oversee the risk management function. Where appropriate particularly in the case of financial institutions a risk committee may be established to help the whole board to discharge its oversight role. Companies should report on their risk management policies, structures and procedures. They should also explain how the board oversees the risk management function.

### **Compliance and Ethics**

We support disclosure of companies in respect of compliance and ethics (discussed under 5.) Code of Ethics). We would note however that it is not the existence of a code of ethics as such that is relevant to investors but information that demonstrates that compliance and ethics are embedded in the corporate culture. The most valuable information on compliance and ethics policies demonstrates that the structures and procedures to implement them are working effectively.

We hope you will find our comments useful. If you would like to discuss our views in further detail, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a horizontal line at the end.

Dr. Hans-Christoph Hirt  
Director